INTRODUCTORY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 10 September 2020

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today’s meeting of the Governing Council, which was also attended by the Commission Executive Vice-President, Mr Dombrovskis.

The incoming data since our last monetary policy meeting in July suggest a strong rebound in activity broadly in line with previous expectations, although the level of activity remains well below the levels prevailing before the coronavirus (COVID-19) pandemic. While activity in the manufacturing sector has continued to improve, momentum in the services sector has slowed somewhat recently. The strength of the recovery remains surrounded by significant uncertainty, as it continues to be highly dependent on the future evolution of the pandemic and the success of containment policies. Euro area domestic demand has recorded a significant recovery from low levels, although elevated uncertainty about the economic outlook continues to weigh on consumer spending and business investment. Headline inflation is being dampened by low energy prices and weak price pressures in the context of subdued demand and significant labour market slack.

Against this background, ample monetary stimulus remains necessary to support the economic recovery and to safeguard medium-term price stability. Therefore, we decided to reconfirm our accommodative monetary policy stance.

We will keep the key ECB interest rates unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

We will continue our purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,350 billion. These purchases contribute to easing the overall monetary policy stance, thereby helping to offset the downward impact of the pandemic on the projected path of inflation. The purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. This allows us to effectively stave off risks to the smooth transmission of monetary policy. We will conduct net asset purchases under the PEPP until at least the end of June 2021 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over. We will reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2022. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Net purchases under our asset purchase programme (APP) will continue at a monthly pace of €20 billion, together with the purchases under the additional €120 billion temporary envelope until the end of the year. We continue to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates. We intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

We will also continue to provide ample liquidity through our refinancing operations. In particular, the latest operation in the third series of targeted longer-term refinancing operations (TLTRO III) has registered a very high take-up of funds, supporting bank lending to firms and households.

The monetary policy measures that we have taken since early March are providing crucial support to underpin the recovery of the euro area economy and to safeguard medium-term price stability. In particular, they support liquidity and funding conditions in the economy, help to sustain the flow of credit to households and firms, and contribute to maintaining favourable financing conditions for all sectors and jurisdictions. At the same time, in the current environment of elevated uncertainty, the Governing Council will carefully assess incoming information, including developments in the exchange rate, with regard to its implications for the medium-term inflation outlook. It continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP contracted by 11.8%, quarter on quarter, in the second quarter of 2020. Incoming data and survey results indicate a continued recovery of the euro area economy and point to a strong rebound in GDP growth in the third quarter. Alongside a significant rebound in industrial and services production, there are signs of a notable recovery in consumption. Recently, momentum has slowed in the services sector compared with the manufacturing sector, which is also visible in survey results for August. The increases in coronavirus infection rates during the summer months constitute headwinds to the short-term outlook. Looking ahead, a further sustained recovery remains highly dependent on the evolution of the pandemic and the success of containment policies. While the uncertainty related to the evolution of the pandemic will likely dampen the strength of the recovery in the labour market and in consumption and investment, the euro area economy should be supported by favourable financing conditions, an expansionary fiscal stance and a strengthening in global activity and demand.

This assessment is broadly reflected in the September 2020 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP growth at -8.0% in 2020, 5.0% in 2021 and 3.2% in 2022. Compared with the June 2020 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised up for 2020 and is largely unchanged for 2021 and 2022.

Given the exceptional uncertainty currently surrounding the outlook, the projections include two alternative scenarios, which we will publish on our website following this press conference. Overall, the balance of risks to the euro area growth outlook is seen to remain on the downside. This assessment largely reflects the still uncertain economic and financial implications of the pandemic.

According to Eurostat’s flash estimate, euro area annual HICP inflation decreased to -0.2% in August, from 0.4% in July. On the basis of current and futures prices for oil and taking into account the temporary reduction in the German VAT rate, headline inflation is likely to remain negative over the coming months before turning positive again in early 2021. Moreover, in the near term price pressures will remain subdued owing to weak demand, lower wage pressures and the appreciation of the euro exchange rate, despite some upward price pressures related to supply constraints. Over the medium term, a recovery in demand, supported by accommodative monetary and fiscal policies, will put upward pressure on inflation. Market-based indicators of longer-term inflation expectations have returned to their pre-pandemic levels, but still remain very subdued, while survey-based measures remain at low levels.

This assessment is broadly reflected in the September 2020 ECB staff macroeconomic projections for the euro area, which foresee annual inflation at 0.3% in 2020, 1.0% in 2021 and 1.3% in 2022. Compared with the June 2020 Eurosystem staff macroeconomic projections, the outlook for inflation is unchanged for 2020, has been revised up for 2021, and is unchanged for 2022. The unchanged projection for inflation in 2022 masks an upward revision to inflation excluding energy and food – in part reflecting the positive impact of the monetary and fiscal policy measures – which was largely offset by the revised path of energy prices.

Turning to the **monetary analysis**, broad money (M3) growth continued to rise, reaching 10.2% in July 2020, after 9.2% in June. Strong money growth reflects domestic credit creation and the ongoing asset purchases by the Eurosystem, as well as precautionary considerations which foster a heightened preference for liquidity in the money-holding sector. In this environment, the narrow monetary aggregate M1, encompassing the most liquid forms of money, continues to be the main contributor to broad money growth.

Developments in loans to the private sector continued to be shaped by the impact of the coronavirus on economic activity. Following strong increases in the early months of the pandemic, the annual growth rate of loans to non-financial corporations remained broadly stable in July, standing at 7.0%, compared with 7.1% in June. High rates of corporate loan growth continue to mirror elevated liquidity needs of firms to finance their ongoing expenditures and working capital and to further build liquidity buffers, although the rebound in economic activity has resulted in some recovery in their revenues. The annual growth rate of loans to households also remained stable at 3.0% in July – the same rate as observed since April 2020. Growth in loans to the private sector continues to benefit from historically low bank lending rates.

Overall, our policy measures, together with the measures adopted by national governments and European institutions, will continue to support access to financing, including for those most affected by the ramifications of the pandemic.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is necessary for the robust convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **fiscal policies**, an ambitious and coordinated fiscal stance remains critical, in view of the sharp contraction in the euro area economy. Fiscal measures taken in response to the pandemic emergency should as much as possible be targeted and temporary in nature. The three safety nets endorsed by the European Council for workers, businesses and sovereigns, amounting to a total of €540 billion, provide important funding support in this context. The Governing Council also strongly welcomes the Next Generation EU package of €750 billion, which has the potential to significantly support the regions and sectors hardest hit by the pandemic, strengthen the Single Market and build a lasting and prosperous recovery.

In order to fully reach its potential, the package will need to be firmly rooted in sound **structural policies** conceived and implemented at the national level. Well-designed structural policies could contribute to a faster, stronger and more uniform recovery from the crisis, thereby supporting the effectiveness of monetary policy in the euro area. Targeted structural policies are particularly important to revitalise our economies, with a focus on boosting investment in priority areas such as the green and digital transitions.

We are now ready to take your questions.

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President Lagarde, your words indicate to me that the exchange rate was a topic of discussion in the Governing Council today, so could you give me a bit of detail about that discussion? How concerned are you about the current level of the euro? Do you think this strength is justified and how much does this affect the policy?

A second question is about whether you discussed any change to any of your policies, whether it's the PEPP or APP, TLTRO, tiering, was there any change being discussed today?

Lagarde: Yes, indeed the Governing Council discussed the appreciation of the euro but as you know, we do not target the exchange rate. Our mandate is price stability and clearly to the extent that the appreciation of the euro exercises a negative pressure on prices, we have to monitor carefully such a matter. This was indeed extensively discussed during our Governing Council.

On your second question concerning changes to our programmes, we as always look at how effective and efficient our policies are and our purchase programmes have been. So when we look at the impact that a programme like the Pandemic Emergency Purchase Programme has been, we can only acknowledge the fact that it has been efficient and it has been effective. Whether you look at the sovereign yields across the euro area, whether you look at all indicators of fragmentation, you can – and we can – and we certainly did take stock of the fact that it has worked in relation to both stabilisation of financing conditions and in respect of the risk of fragmentation. In addition to that, clearly in terms of monetary stance we also acknowledge the fact that PEPP has also served its purpose, although initially it was not intended for that particular aspect of our monetary policy, but it did. So we decided to maintain our accommodative monetary policy, and certainly under current circumstances it is very likely that the full envelope of PEPP will be used for the purpose of developing those policies.

I have two questions. The first is on PEPP. The ECB does not fix the size of its net purchases programmes in relation to the size of government bond issuance. However what you called the ambitious fiscal measures in response to coronavirus pandemic by the euro area member states will result this year and next year in a massive increase in debt-to-GDP levels, adding pressure on debt sustainability in some countries. Are you and the Governing Council worried that public debt increases might jeopardise financial stability and provoke unwanted tightening, higher yields and spreads? So in that sense, the market suspects the PEPP to be increased and what do you think about market expectations on that front?

My second question is on banks. The take-up of the last TLTRO III tender was, as you said, very high but it also showed a fragmented banking system and some weaknesses. COVID-19 can create fragmentation and weaknesses in banking. So market expects more to be done for banks, for example softening of the TLTRO III conditions. Is the Governing Council looking at that on European banks in the pandemic, and the possible revision of existing rules or tools?

Lagarde: Thank you very much for your many questions. Let me take the opportunity of your first question to first of all acknowledge and celebrate the fiscal measures that were taken. We had repeatedly over the course of time asked for fiscal measures to be taken, and for fiscal policies to work hand in hand with monetary policy. This is clearly something that we have seen since mid-March both at the national and at the European level. If you combine all the fiscal measures that were taken at national levels, you arrive at roughly a number of 4.5% of GDP consisting of measures that really have an impact on the outlook. That is not to mention the measures that were taken under the headline of guarantees, which roughly account for about 20% of GDP. That's only at the national level. As I said in the introductory statement, the Governing Council strongly welcomed not only the three safety net measures that were decided earlier in the summer to help both employees, companies and sovereigns in total amount of €540 billion, but it did really welcome strongly the breakthrough of the Next Generation EU fund of €750 billion which clearly will have an impact most of which, by the way, is not included in our projection as they are being published today. So these fiscal measures were necessary and I'm only pleased that they could be taken in due course and sometimes with the necessary waivers and exemptions that were required at the European level.

Let me just add a few words about the programme that we put in place; the Pandemic Emergency Purchase Programme. Let me remind you that it had two functions and it was initially calibrated for €750 billion that was back on the 18th March. The dual function was the following: the first function was to stabilise market, to ensure a smooth transmission of our policy measures. The second function was to ease our monetary policy stance, to help counter the substantial downgrade of our inflation outlook caused by the pandemic. The PEPP announcement already in March, and its recalibration later on in June have successfully stalled the tightening in financial conditions and contributed to easing the overall monetary policy stance. Clearly, with markets stabilising and risks of fragmentation subsidising, I'll remind you that we are pretty much back to the pre-COVID levels in terms of both spreads and dispersion of yields. The flexibility property of PEPP, which is distinct from the attributes of the APP for instance, has become less prominent. The role of the PEPP in easing our monetary policy stance has taken a central stage instead.

In a nutshell, fiscal measures were needed. They were taken rightly, timely and efficiently. The PEPP as an emergency programme was clearly responding to the needs of the time. I would add that the TLTRO that you have referred to has also served the purpose that we intended, which was to make sure that the economy was receiving abundant liquidity in order not to accumulate liquidity, not to build buffers, but in order to make sure that lending to the economy was taking place. TLTRO III was calibrated with that in mind, so if banks can actually access a borrowing interest rate which can go down to -1%, it is only under the condition that the lending to the economy, corporate and households, is actually tantamount to what it was or more than what it was, prior to COVID-19. TLTRO III is very different from TLTRO I and TLTRO II in terms of take-up. We've observed at the time of this massive take-up for the first operation, roughly €1.3 trillion, that it was very well spread throughout the euro area. So it wasn't country specific, it wasn't a category of banks in a country; it was across the board. The other thing that we have observed, which tells us that it is effectively working, is, first, the low interest rates which continue to apply both for corporates and for households and, second, the increased credit that is lent to the economy: 7% for the corporates, 3% for the households.

The banks themselves in the July bank lending survey that we have published actually say that TLTROs have helped them to lend to the economy. It shows in the numbers. Those banks that have taken up TLTROs have actually a larger proportion of loans to the economy than those that did not take up TLTROs. So in this stock-taking exercise, both in relation to PEPP, in relation to continued Asset Purchase Programmes otherwise and in relation to TLTROs, we believe that our monetary policy tools as calibrated have worked well.

My first question is about some recent comments by Philip Lane in which he talked about a two-stage policy approach to the PEPP. So he said its role is to counteract the negative shock to the expected inflation path caused by the pandemic. How widely is this view that ending PEPP will depend mostly on the outlook for inflation rather than just the immediate crisis effect shared among the Governing Council?

My second question is about the Fed's recent strategy shift, where a lot of attention has been paid to the change in its inflation goal, which is in itself something you might have some thoughts about. But it also introduced an important shift in how it assesses the health of the US labour market, paying more attention to how marginalised groups fare in the economy. So I'd like to know what efforts the ECB is making to better understand the unique inequalities facing minority communities in the euro area as labour markets.

Lagarde: I think I have just actually addressed the point that you are raising, which is the dual function of the Pandemic Emergency Purchase Programme. It was a programme in and of its own and it had in its DNA, as I think I have mentioned at one of our last press conferences, flexibility which was clearly intended to address the issue of dispersion, the risk of fragmentation and intended to make sure that our monetary policy was transmitted across all member states of the euro area. Clearly, that function has worked, is working and is critically important in order for our monetary policy to actually transmit throughout the whole region. It has a dual function in that the other function has to do with the monetary stance, and clearly it will continue to address and deliver on that dual function. We very much hope that it continues to work on both accounts, both the stabilisation of financing conditions, the risk of fragmentation, but also the monetary stance in order to make sure that inflation is going towards the medium-term objective that we are pursuing.

As you know, we increased the size of PEPP back in June and that was clearly intended to respond to the circumstances and to make sure that all the consequences resulting from the pandemic could be addressed through that Pandemic Emergency Programme, whether it related to fragmentation, to financial instability, or to the monetary stance that was a direct consequence of the pandemic. So that continues and we've extended, as you know, the duration of our purchases as well as indicated the time frame during which we would continue to reinvest. We also indicated that all of that should not in any way predicate any obstacle to our delivery of monetary policy.

Now, your second question, which is a broad one, has to do with the strategy that has been developed with a bit of a lag time attributable to the pandemic by the Federal Reserve board. Clearly, we have noted – as you have – that the dual mandate price stability and employment that the Fed pursues have been revisited. You have commented upon it and we have taken good note of those changes. As far as we, at the ECB, are concerned we had started our strategy review just like the Fed. We pressed the pause button during the time of the highest level of the pandemic crisis. We are about to resume. Actually our next seminar which will focus on inflation measurements is due to be held on September 23rd. This whole period of COVID-19 has not stopped the work streams, the ten work streams that have been assigned with specific research and analytical themes. So we feel that we are up and about and ready to, as I said earlier on, turn every stone that will help us define our strategy in order to make sure that the ECB is fit for purpose and our monetary policy can deliver.

Trust us, we will be working on our strategy. I think it would be totally unwise and not loyal at all for me to already prejudge what the strategy review deliberations will be. There's an enormous amount of work that is being done, but there will clearly be a focus on our definition of price stability. It's a cornerstone of any strategy of any central bank around the world. We will be extremely attentive and focussed on that.

Do you think we will get deflation now in the Eurozone?

Lagarde: Well, according to Eurostat's flash estimates, inflation decreased to -0.2% in August from 0.4% in July. That decrease, which hit the front page in some corners and was argued about, reflected a drop in inflation excluding energy and food as well as lower food inflation, which were partially offset by less negative energy inflation. Overall energy inflation remained a drag on headline inflation, but with less negative rates since June, still reflecting the old price drop in the outset of the COVID-19 pandemic. Food inflation in contrast increased sharply in April, but this surge has since unwound and movements have normalised again to usual seasonal patterns. Inflation excluding food and energy declined as expected to 0.4% in August – and why is that? Well, it is due to the temporary VAT German decrease and to the postponement… I'm sorry that I'm going into details but that's what it is. It's the postponement of garment sales in two of the major countries of the European Union, from July to August, and also to weak consumption demand.

Clearly, the September 2020 projection that will be published shortly does not foresee deflationary risk, and it would not be a good economic analysis or inflation analysis to conclude that because of one measure or one month of negative results, we are heading towards deflation. To the contrary actually; deflationary risks which were slightly higher back in June in our latest projections have receded in September. I know it's a bit of a convoluted way to address your question but I wanted to do that because the -0.2% in August was a bit of a wake-up call for some. We don't think that it is actually descriptive of a situation that we are interested in, which is the medium-term evolution of inflation. Those deflationary risks identified previously have actually receded.

I would like to revisit a theme that I read back in December but comes back strongly: as this is not your usual recovery, it's not just about sectors restarting. The pandemic has hastened a structural shift in the economy, wiping away whole sectors like retail and travel and leisure, and bringing forward new ones; technology, ecommerce, healthcare. But this type of transition takes time, until the sectors are mature enough to boost employment and output. Therefore the

output gap will grow and will remain wider for longer. Is there an enhanced role that monetary policy can play to facilitate this transition? For instance, can the ECB take a more active role to promote the needed types of investments through the bank lending channel? Or by targeting purchases of assets that would help drive more investment to certain sectors of the economy that have stronger growth potential? Do the banks in the Eurozone, especially in the periphery, need a special extra attention or support in order to cope with the capital challenges as well as with a lower demand for credit?

Lagarde: I have to say that I agree with your analysis of the changes that we are seeing. It is a crisis like no other and it is a recovery that is very specific and very unusual as well. Let me also say that the mandate of the European Central Bank is price stability. To the extent that we can contribute to economic development by securing price stability, this is our way to share the mission and the duties that we have in order to restructure and reorganise the economy in order for it to grow to the benefit of all.

Second, let me also mention that the way in which the Next Generation EU fund has been decided and the special focus that has been given to the green and digitalisation dimension of the investments seems to us to be exactly the right determination in order to respond to the challenge of restructuring the economy. If that in terms of investment is coupled with the right economic structural reforms in order to make sure that there is good leverage of those investments, then certainly the response to the challenge will be strong. I would like to mention another way in which – well, two other ways – in which we contribute our share under our mandate to the restructuring and the recovery of our economies. The first one is using an instrument like TLTRO in the volume that it has, this is clearly intended to fuel credit to the economy, to make sure that operators, whether they are families or enterprises, can actually have access to credit and can participate in the recovery of the economy.

Second, under our various purchase programmes as you know, we have an allocation that is dedicated to public institutions. So to the extent that the European Commission, either directly or through other entities of its choice, issues bonds and raises financing, then certainly it would qualify as a public institution, the bonds of which we could buy. So it's not that I'm looking forward to it, but it is also our way to participate in the effort that will be a much more collective effort and that is these new instruments that were decided over the course of the summer.

I have a question about your comments on the strength of the euro. You were saying that you have discussed it extensively but at the same time, you and the ECB don't seem to be overly concerned about the strength of the euro. Was that view shared by all policy makers?

Then another question on Brexit. The ECB has called on banks to make serious provisions now for Brexit so what do you think will be the dominant scenario for now and what are you calling on banks to do?

Lagarde: I think I've been quite clear and quite explicit in the introductory statement concerning the role that the appreciation of the euro plays. I will refer you back to page 3, at the top of the page, where we say: at the same time, in the current environment of elevated uncertainty, the Governing Council will carefully assess incoming information, including developments in the exchange rate, with regard to its implications for the medium-term inflation outlook. As a good observer of our introductory statements, exchange rate and the appreciation of our currency was not mentioned in previous documents. So that is clearly an indication of the fact that we do not target, but we monitor and we monitor carefully because obviously the appreciation of our currency has an impact on our inflation. As I said, it's not a policy target for us. I am not going to comment on the level of our currency, but it is clear that the external value of the euro is an important determinant of price setting in the euro area. So we will continue to monitor the development and be very attentive to that.

I think you had a second question which had to do with Brexit. Brexit, I think, for quite a while has been included as one of the downside risks attributable to geopolitical development. And that is included in our projection. Clearly we are not in the negotiating seat. The negotiations are handled very ably by Michel Barnier under the mandate that was assigned to him by the European Council. We are carefully monitoring as well the developments. We very much hope that after the Brexit that was decided and became effective as of January 2020, the outcome of the negotiations, notwithstanding the negotiation posturing, and what has been observed in the last few days, will lead to a positive outcome so that the projected downside risk that we have included in our projection will not be made worse.

I guess I had a follow up on the exchange rate question. You were quite clear that the ECB is looking at it closely, but I wondered if you could say anything about whether the development so far has been basically benign or if it's something that is worrying most members.

The second question was on the possibility of cutting interest rates. It seems as though most of the focus has been on the PEPP and how that would be the main tool if you needed to provide more stimulus. But could an interest rate cut be helpful? I think investors are pricing a small interest rate cut. Do you think that could be helpful to support the economy in the shorter term?

Lagarde: As I said, the European Central Bank does not target the exchange rate. Our mandate is price stability and to that end, we have a medium-term inflation aim which we try to pursue using all the monetary policy tools that are available. It is clear that we are currently observing through the analysis that we do, we are observing negative pressure on the price level. That is partly attributable – largely attributable actually – to the appreciation of the euro. While we don't target at any level, and I have not, do not and will not comment on any level, we are also monitoring carefully the appreciation of our currency in relation to its impact on our inflation medium-term level. On your other question, let me take this opportunity to remind you that if and when necessary, and warranted by circumstances, and in accordance with our mandate, the Governing Council is determined to use all the policy tools that it has available, and to deploy them and calibrate them as necessary and as appropriate in order to deliver on our mandate.

That applies to all our policy tools, so I did mention the particular impact of PEPP because that is the most recent development that we've had and recalibrated back in June. I did refer to the APP and to the targeted long-term refinancing operations because they were also the latest one. But it doesn't mean to say that I am excluding all the other tools that we have available. Indeed if and when it was needed, we will not hesitate to use the tools as appropriately and as adequately as is needed. There are circumstances under which Asset Purchase Programmes are more efficient in order to reach our goals. There are circumstances where interest rates are more efficient. We have considered for the last few months that the Asset Purchase Programmes were the right tool in order to reach our goal.

Two questions, if I may. You have mentioned that it's very likely that the full envelope of PEPP will be used even with the rebound on the economic activity. Do you think that we will probably see another increase on its volume before the end of the year?

My second question is about the Spanish banking merger that involves CaixaBank and Bankia. I would like to know your opinion about it and whether this was the kind of concentration that the ECB was looking for, or it is another lost opportunity for just national operations.

Lagarde: Let me tell you that we have not discussed any expansion of the envelope of PEPP. You're giving me a very nice opportunity to hand the floor over to my colleague, Vice President de Guindos, because your question clearly relates to a topic that he is even more familiar than I am about.

De Guindos: As you are fully aware, we do not enter into any kind of assessment of evaluation of concrete operations. But we have made this generic recommendation based on financial stability considerations. One of the main vulnerabilities that we have indicated in the past and most prominently after the pandemic, is the low profitability of the European banks and the low valuations that this low profitability is giving rise to. Consolidation is one of the instruments. This is a generic call, a generic recommendation as I have said before in order to improve the profitability of the European banks to get rid of excess capacity and to reduce the cost structure of the European banks. But we do not have any sort of concrete comment with respect to very specific or particular operations as the one that you have mentioned.

I would like to know; what do you believe is today missing in the architecture of the currency union? The second question; what do you believe would it take in the next five years to have a fully prospering euro area?

Lagarde: I think we have said for a long time that for the currency union to be more complete and its architecture designed to the full possible extent, we would like to see a fully-developed banking union with all its attributes so that there is a euro area banking system with easy cross-border mechanisms, with resolution mechanisms, with backstop facility in place and with much more solid principles of a union than we have.

Second, I think we've also consistently indicated that we would like to see a capital markets union which would apply throughout the euro area at least, and that would facilitate access to capital by enterprises and large corporates, without the discrepancies and the different regulatory regimes and filing requirements that currently apply in order to make sure that money actually flows to where it is needed in order to finance investment. I think we clearly also are pleased to see that there is at least embryonic joint fiscal capacity that was decided pre-COVID-19 in order to facilitate convergence and competitiveness and hopefully investment on a cross-member state basis throughout the euro area. I would mention those three key components in order to strengthen the currency union that we have. I'm delighted to see that under the presidency of Paschal Donohoe we have a convergence of view on some of those items in order to support the euro area and make it a stronger player on the European scene.

Could I ask a bit more about the strategic review? There have been some suggestions that you maybe should look to speed up the strategic review, especially after the Federal Reserve announced the results of its own review and adopted a more dovish stance. Could you perhaps

split the strategic review and decide on the inflation target first and then come to the rest of it later?

Second question: do you detect, and are you worried about, signs of divergence in the economic recovery of the Eurozone?

Lagarde: On our strategy review, as you know we had to pause for a little while because of COVID and because of the necessity to actually concentrate all the brain power and all the forces of the ECB on devising those new tools and making sure that we could actually respond to the objectives that we had. We are now resuming our strategy review with the appropriate sequence of seminars with reactivated work in the various work streams that have been identified. Let me just give you – I know that you're probably familiar with it already – but mention for all the audience the various work streams that we have. I think it really demonstrates the scope of our review and the depth that we want to develop in so doing. We will cover topics like inflation measurements; that's an important one that is often debated. That's coming up on September 23rd. We will also work on the ECB's price stability objective, as I said earlier. It's one of our key focuses. Euro system modelling, very important in order to identify whether we are capturing all the right ingredients and whether we are working them out in the adequate way.

We will also discuss digitalisation and the impact that it has from a monetary policy point of view. I have in mind, obviously, such matters as the payment system, the euro digital currency, possibly. Our topics will include climate change as those who listen carefully to me, it's a topic that I am very keen about, which I believe has a systemic dimension that applies actually to price stability. We will include also financial stability and macroprudential policies, non-bank financial intermediation, communication and the interaction between monetary policy and fiscal policies. Now, I have limited illusion about the absence of leaks in all the work that will be done, but my hope is that we can have sufficiently cohesive a process so that we can actually as we move along possibly signal directions without actually settling on any particular final considerations, because all these topics actually interact and will matter when it comes to defining our overall strategy.

That's really what I wanted to say about our strategy review, added to which there will be a public dimension to it because we will have, inspired by the Fed process actually, which itself was inspired by the Canadian central bank, we will have an outreach that will really include as many stakeholders as possible ranging from NGOs and civil society to obviously members of parliament, and particularly the European Parliament, with which we will have a constant dialogue.

On the issue of divergence, I think that's what I tried to say when I used the words uneven, incomplete and uncertain. As a result of these three components, we are likely to see divergence. We are seeing divergence actually, depending on how bad countries were hit by coronavirus, depending on what fiscal position they started from, depending on how much fiscal space they had available, depending on the strength of their banking sector and so on and so forth.

What we are hoping is that the European Union instrument that has been decided, the Next Generation EU fund, will actually address some of those divergences and dispersions within the euro area and within the European Union as well in order to direct as much as possible of the funding, particularly in terms of grants, to those countries that have been most hit and that are likely to come out of the process with less recovery than the others. I think that the flexibility that we have embedded in PEPP is also a tool that we have used in order to help in that process.

Je voudrais juste évoquer un instant la mémoire d'Antoine Rufenacht, qui était un homme d'Etat dont l'enterrement a lieu précisément aujourd'hui alors je vous parle et qui était quelqu'un qui comptait beaucoup pour moi. Merci.

CONTACT

European Central Bank

Directorate General Communications

- Sonnemannstrasse 20
- 60314 Frankfurt am Main, Germany
- +49 69 1344 7455
- media@ecb.europa.eu

Media contacts